



**Employees' Retirement Board of Rhode Island**  
**Monthly Meeting Minutes**  
**Wednesday, February 13, 2013**  
**9:00 a.m.**  
**2nd Floor Conference Room, 50 Service Avenue**

The Monthly Meeting of the Retirement Board was called to order at 9:05 a.m. Wednesday, February 13, 2013, in the 2<sup>nd</sup> Floor Conference Room, 50 Service Avenue, Warwick, RI.

**I. Roll Call of Members**

The following members were present at roll call: General Treasurer Gina M. Raimondo; Vice Chair William B. Finelli; Gary R. Alger, Esq.; Daniel L. Beardsley; M. Carl Heintzelman; John P. Maguire; Thomas A. Mullaney; Claire M. Newell; Louis M. Prata and Jean Rondeau.

Also in attendance: Frank J. Karpinski, ERSRI Executive Director; Attorney Michael P. Robinson, Board Counsel.

Recognizing a quorum, Treasurer Raimondo called the meeting to order.

Mr. Richard Licht arrived at 9:07 a.m.

**II. Approval of Minutes**

On a motion by Gary R. Alger, Esq. and seconded by Jean Rondeau, it was unanimously **VOTED: To approve the draft minutes of the January 9, 2013 meeting of the Employees Retirement System of Rhode Island**

A motion was then made by Thomas A. Mullaney and seconded by Louis M. Prata, to convene into executive session consistent with Rhode Island General Laws §42-46-5 (a) (2), to review and approve the draft executive session minutes from the January 9, 2013 Retirement Board meeting previously sealed, which involved attorney client communications related to litigation pending against the Retirement Board. A roll call vote was taken to enter Executive Session and the following members were present and voted Yea: General Treasurer Gina M. Raimondo; Vice Chair William B. Finelli; Gary R. Alger, Esq.; Daniel L. Beardsley; M. Carl Heintzelman; Richard A. Licht, John P. Maguire; Thomas A. Mullaney; Claire M. Newell; Louis M. Prata and Jean Rondeau. It was unanimously

**VOTED: To convene the Board in Executive Session pursuant to Rhode Island General Laws section §42-46-5 (a)(2), to review and approve the draft executive session minutes from the January 13, 2013 Retirement Board meeting.**

**[Executive Session]**

The Board thereafter convened in executive session.

**[Return to Open Session]**

Upon returning to open session, the Board noted for the record that the following votes had been taken in executive session:

A motion was made by Gary R. Alger, Esq. and seconded by William B. Finelli to unseal the draft sealed executive session minutes of the January 9, 2013 Retirement Board meeting, which was then unanimously

**VOTED: To unseal the draft sealed executive session minutes of the January 9, 2013 Retirement Board meeting**

A motion was made by John P. Maguire and seconded by Claire M. Newell to approve the draft sealed executive session minutes of the January 9, 2013 Retirement Board meeting, which was then unanimously

**VOTED: To approve the draft sealed executive session minutes of the January 9, 2013 Retirement Board meeting**

A motion was made by Gary R. Alger, Esq. and seconded by William B. Finelli to reseal the draft executive session minutes of January 9, 2013, pursuant to RIGL §42-46-5(a)(2), as they involved confidential attorney client communications related to pending litigation against the Retirement Board, which was then unanimously

**VOTED: To reseal the minutes of the executive session of January 9, 2013, consistent with Rhode Island General Laws §42-46-5(a)(2) as they involved confidential attorney client communications related to pending litigation against the Retirement Board.**

A motion was made by Gary R. Alger, Esq. and seconded by William B. Finelli to exit executive session and return to open session. A roll call vote was taken and the following members were present and voted Yea: General Treasurer Gina M. Raimondo; Vice Chair William B. Finelli; Gary R. Alger, Esq.; Daniel L. Beardsley; M. Carl Heintzelman; Richard A. Licht; John P. Maguire; Thomas A. Mullaney; Claire M. Newell; Louis M. Prata and Jean Rondeau. There being 11 votes cast, 11 voted in the affirmative consistent with Rhode Island General Laws 36-8-6, *Votes of the Board – Record of Proceedings*, there being a majority vote of the members present and voting at which a quorum is present, it was then

**VOTED: To exit executive session and return to open session.**

### **III. Chairperson's Report**

The Treasurer first provided the Board with an investment update. She reported that 2012 calendar year returns were 12.5%; fiscal year-to-date return was 9.5%. The Treasurer then discussed the letter provided to the Ethics Commission. She said Attorney Robinson met with Attorney Jason Grammit who provided guidance. The Treasurer reminded the Board that the letter was submitted to the Ethics Commission stressing that the issue was time sensitive since it involves active litigation. Treasurer Raimondo noted her appreciation of everyone's opinion that was solicited and thanked Attorney Robinson. Attorney Robinson said he would keep the Board updated on the progress of the response from the Ethics Commission.

Mr. Prata asked if there will be an option to discuss a draft opinion before a final vote of the Ethics Commission. Attorney Robinson said the Commission staff will prepare the opinion but whether it is given to him before the meeting is questionable. Mr. Licht recommended reading through Attorney Robinson's letter to add any additional input to the Ethics Commission if desired, since their opinion is the formal and official one.

## IV. Executive Director's Report

Director Karpinski apprised the Board that they were in possession of the January 31, 2013 Pension Application Report, the Disability Subcommittee Report, an updated contact list of Board members, a presentation from Gabriel, Roeder, Smith and Company (GRS) and a post hearing memorandum from Attorney Robinson on the *Ralph N. Shippee vs. ERSRI* matter, which was emailed on Monday. He noted that hard copies were provided to each Board member as well. Director Karpinski reminded the Board that the State and Teacher valuation was provided last month and updated MERS valuations were available if needed.

Director Karpinski apprised the Board that there was a meeting for the MERS CEO's coordinated by Mr. Beardsley on Wednesday, February 6, 2013. He noted that there were 20 attendees and Mr. Prata was also present. A videoconference was established with Mr. Joseph P. Newton, FSA, of GRS who provided information about the MERS valuation. There were some estimates that were prepared and updates that will be mailed to the attendees.

The Director then said the Procurement Subcommittee met on January 31, 2013 and February 11, 2013 regarding a response from a vendor for actuarial audit services. He said Chairperson Mullaney would update the Board during the Procurement Subcommittee Report.

Director Karpinski reminded the Board of the all-day training session scheduled for March 29, 2013; the Director said the speakers have been secured and the location is almost finalized.

The Director then noted that the Legislative Subcommittee will be rescheduled due to the snow storm that occurred. He said he is coordinating with Mr. Boudreau who requested this meeting; the Director said he will keep the Board apprised once the meeting has been rescheduled.

- **Presentation and Approval of the Actuarial Valuation as of June 30, 2012 by GRS including the Judicial Valuation**

Director Karpinski then introduced Mr. Joseph P. Newton, FSA, to provide the actuarial valuation presentation.

Mr. Newton stated he would provide a condensed version of the presentation of the actuarial valuation as of June 30, 2012 by GRS on the ERS and the MERS plans as well as the results for the Judicial Retirement Benefits Trust. Mr. Newton noted that the State Police results will not be available today but should be forthcoming.

Mr. Newton discussed the 2015 employer contribution requirements for State Employees. He noted that prior projections were computed to be \$169.6 million and the actual results from the valuation are a contribution rate of 23.33% that translates to a projected payment of \$168.1 million for FY2015. He said FY2016 is projected to be a contribution rate of 24.03% or \$178.6 million dollars.

Mr. Newton then discussed the employer contribution rates for Teachers. He said there was more of an increase in the contribution rate due to the payroll. He noted the projected contribution for FY2015 was \$236.4 million, which in dollars was less than earlier projections of \$244 million. However, Mr. Newton said an increase is projected for FY2016 to \$252.8 million. The Treasurer noted that the increases in FY2013 from FY2012 were anticipated.

Mr. Licht compared the Teachers to State Employees and noted a larger increase for Teachers. Mr. Newton said the reason was that State employees received more payroll growth than anticipated where the Teachers were flat or down. He said a certain dollar amount must be obtained in order to amortize the unfunded liability thus affecting the contribution requirements.

Mr. Newton then provided information on an estimated FY2013 contribution for State Employees. He noted that in order to maintain the same contribution rate from FY2012 of 23.33%, a 16% market rate of return would be required.

Mr. Newton then discussed the MERS results noting the updated report made adjustments to 5 units. He again noted that the funded ratio decreased from 84.3% to 82.5% with 28 units that are over 100% funded, down from 32 units last year.

Mr. Newton discussed the actuarial results of the judicial plan. He noted that with State Employees, asset losses are higher due to more retirees. He told the Board that the assets of the Judges Plan, which is a new growing plan, are not as big relative to each employee thus resulting in less loss of assets. He said the FY2015 contribution rate is 28.32%, roughly a 1% increase from last year and they are still over 80% funded at 83.4%.

Mr. Newton then discussed the recommended asset smoothing method. He said the asset smoothing method allows gains and losses to offset each other immediately which keeps volatility at a minimum and always moving toward market.

Director Karpinski queried Mr. Newton that by accepting his recommendation of the smoothing method, the plan will be adequately funded and avoid the high and low contributions thus keeping a more stable contribution rate. Mr. Newton agreed.

Mr. Newton discussed probabilities of COLA being provided and noted that under both asset smoothing scenarios, over time the same COLA amount is being awarded, the difference is in a given year the range of probabilities that some COLA will be awarded is improved under the recommended method.

Mr. Newton summarized his presentation and said this year's results for State Employees and Teachers are close to prior projections. He said there is one more year to recognize the FY2009 asset losses. Mr. Newton said if the FY2012 loss is not offset with any positive experience, the contributions rates are projected to top out in FY2018 and then begin a process of drifting lower over the next couple of decades. However, based on current assumptions, asset levels, contribution and amortization policies, COLAs are projected to be suspended until calendar year 2032, consistent with the original RIRSA projections.

Mr. Maguire had a concern on the impact of the recommend asset smoothing method on COLAs. He asked Mr. Newton if any of his other clients use his recommend method. Mr. Newton said about half of his clients are currently using the proposed method. Mr. Maguire said based on the proposed method there appears to be a greater probability of some type of benefit adjustment than under the current method in a given year except for the two extremes (0% or 4%). Mr. Maguire wanted to clarify that the current method has a greater probability of the two extremes, and Mr. Newton agreed. Mr. Maguire then questioned if other systems have employed the proposed asset smoothing method, for quite some time, why was this method not addressed with ERSRI before? Mr. Newton said it was researched extensively and discussed internally but given the voluminous changes affecting ERSRI in recent years timing was a factor in an already complex system.

On a motion by Mr. Richard A. Licht and seconded by Jean Rondeau, it was unanimously

**VOTED: To adopt the asset smoothing methodology recommended by Gabriel, Roeder, Smith and Company and employ it beginning with the Actuarial Valuation as of June 30, 2012.**

On a motion by Mr. Richard A. Licht and seconded by Jean Rondeau, it was unanimously

**VOTED: To approve the Actuarial Valuation Reports for State Employees, Teachers, MERS Plans and The Judicial Retirement Benefits Trust as of June 30, 2012 as presented by Gabriel, Roeder, Smith and Company**

Treasurer Raimondo thanked GRS for their presentation and the Board for their indulgence.

## **V. Administrative Decisions**

### **Administrative Appeal – Ralph N. Shippee vs. ERSRI**

Included in Board Members' Books was the Hearing Officer's written decision, along with exhibits and supporting information in the matter of *Ralph N. Shippee vs. ERSRI*. Attorney Robinson asked if consistent with Regulation Number 4, *Rules of Practice and Procedure for Hearings*, there were any written briefs, legal memoranda, or exceptions to the decision of the Hearing Officer which must have been submitted to the Executive Director not later than 10 days prior to the hearing. Director Karpinski apprised the Board that any such material had been included in their board packet.

Attorney Robinson then said that pursuant to ERSRI's regulations, each party to the proceeding has the right to appear and to make oral arguments before the Retirement Board. Consistent with the Board's long standing policy and procedures, he apprised the appellant that this is not an opportunity to present new factual material to the Board, and that pursuant to ERSRI's regulations and Rhode Island case law, the Board owes deference to the Hearing Officer on factual determinations and questions of credibility, and cannot overturn the Hearing Officer on determinations of fact or credibility unless such determinations are found to be clearly wrong.

Attorney Robinson then asked the appellant's Attorney, Mark A. Fay, if Mr. Shippee would be making any presentation or oral argument before the Board. The appellant was then sworn in by the stenographer. Attorney Robinson then provided a synopsis of the *Ralph N. Shippee vs. ERSRI* matter. There being a stenographer present, the parties presented their cases.

A motion was made by Jean Rondeau and seconded by M. Carl Heintzelman to affirm and adopt the findings of fact and conclusions of law of the Hearing Officer. A roll call was taken, and the following members voted Yea: General Treasurer Gina M. Raimondo; Vice Chair William B. Finelli; Gary R. Alger, Esq.; Daniel L. Beardsley; M. Carl Heintzelman; Richard A. Licht; John P. Maguire; Thomas A. Mullaney; Claire M. Newell; Louis M. Prata and Jean Rondeau.

There being 11 votes cast, 11 voted in the affirmative, consistent with Rhode Island General Laws §36-8-6, *Votes of the Board -- Record of Proceedings*, there being a majority vote of the members present and voting at which a quorum was present, it was then



**VOTED: To affirm and adopt the findings of fact and conclusions of law of the Hearing Officer in the matter of *Ralph N. Shippee vs. ERSRI* denying Mr. Shippee's application for an accidental disability.**

## **VI. Approval of the January Pensions as Presented by ERSRI**

On a motion by Jean Rondeau and seconded by Gary R. Alger, Esq., it was unanimously

**VOTED: To approve the January pensions as presented.**

## **VII. Legal Counsel Report**

Attorney Robinson apprised the Board that he had recently received a decision from the Superior Court in late January regarding the matter of *Donna Francis and Donna Hassell vs. ERSRI*. He said the case involved consolidated requests to purchase service credit by individuals who were cook's helpers from the Department of Education, each were assigned to a 15-hour work week with additional hours known as on-call time. Regarding both cases, the Superior Court decided in favor of the System on virtually all of the legal issues in the case. The only issue that the Court reversed the Board regarding Ms. Hassell was relative to the time period of 1977 – 1983 in which she would be able to buy that time period. Attorney Robinson felt that since this issue was based on a factual matter and the inference that the Court drew from the facts in the case, he said it does not impact any legal interpretations that ERSRI employs involving the administration of the System. Consequently, his recommendation was that an appeal would not be likely to result in clarification or guidance with respect to the law governing administration of the systems.

Treasurer Raimondo asked Attorney Robinson to update the Board regarding the Central Coventry Fire District not approving the budget which will have consequences for the payments that are owed from the Central Coventry Fire District to the System. Attorney Robinson apprised the Board that Attorney Rick Land had been appointed Special Master of the fire district, and that a Proof of Claim had been filed on behalf of MERS. He said the Special Master has filed an emergency petition to liquidate the fire district which will be considered by the Court. Mr. Maguire asked Attorney Robinson about the benefits and funding of the district. Director Karpinski responded and said that the Coventry Fire District is 68% funded, and has 13 retirees and 48 active members.

## VIII. Committee Reports

### Disability Subcommittee:

The Disability Subcommittee recommended the following actions on disability applications for approval by the full Board as a result of its meeting on February 8, 2013:

Name	Membership Group	Type	Action
1. Sharyn Wilk	Municipal	Accidental	Postpone
2. Benita Fernandez	State	Accidental	Deny
3. Joseph Theroux	Municipal	Accidental	Deny
4. Douglas Munroe	State	Ordinary	Postpone
5. Neal McCarthy	Municipal	Accidental	Approve
6. Christopher Leveille	Municipal	Accidental	Postpone
7. Kathleen Hart	Teacher	Ordinary	Approve
8. Marie Hebert	Teacher	Ordinary	Approve
9. Denise Valenti	State	Ordinary	Approve
10. Shelley Regan	State	Ordinary	Postpone

On a motion by William B. Finelli and seconded by Daniel L. Beardsley, it was unanimously

**VOTED: To approve the recommendation of the Disability Subcommittee meeting of Friday, February 8, 2013 on items 7 and 8.**

John P. Maguire recused himself from the vote on numbers 7 and 8.

On a motion by William B. Finelli and seconded by Daniel L. Beardsley, it was unanimously

**VOTED: To approve the recommendation of the Disability Subcommittee meeting on Friday, February 8, 2013 on items 1, 2, 3, 4, 5, 6, 9 and 10**

### Procurement Subcommittee:

Chairman Thomas A. Mullaney said the Procurement Subcommittee met on Monday February 11<sup>th</sup> to interview and recommend a vendor for actuarial audit services. The committee held a video conference with the firm Cheiron. Chairman Mullaney briefed

the Board and noted that they use technology to better educate pension plan Trustees and they have substantial experience working on large, high profile, and complex assignments.

After discussion of the presentation, the committee considered which options for services should be performed as requested in the RFP. The committee then recommended:

- Option 1 - A determination of whether the actuarial methods, used by GRS in preparing the most recent **actuarial valuation** are technically sound and conform to the appropriate Standards of Practice as promulgated by the Actuarial Standards Board. He noted that this will include a full valuation replication.
- Option 3 –A review of the demographic and economic actuarial assumptions for consistency, reasonableness and compatibility. The Chairman said this will provide an opinion only.

The committee then instructed Director Karpinski, consistent with Regulation No.3 Section 2.6, to negotiate a contract with Cheiron to provide actuarial audit services. Upon successful negotiation, Director Karpinski will report the fees for such services to the committee for consideration and if satisfactory, the committee will recommend approval to the full Board at the March meeting.

#### **Legislative Subcommittee:**

Director Karpinski noted that the Legislative Subcommittee meeting of February 8, 2013 was canceled due to inclement weather that day and will be rescheduled after conferring with Mr. Boudreau.

### **IX. New Business**

Mr. Maguire requested a report of pending disability applications ranging from initial presentation to awaiting the 3 independent medical examinations (IME) documentation. Melissa Malone, Assistant Director of Member Services said she would obtain the information for the next Board meeting.

Mr. Licht asked if there is an automated tracking system of disability applications. Ms. Malone noted that there is a tracking system in place which is tracked weekly. Mr. Beardsley noted that at the last disability subcommittee meeting, Mr. Boyce raised a similar request but more in depth.

### **X. Adjournment**

There being no other business to come before the Board, on a motion by M. Carl Heintzelman and seconded by Richard A. Licht the meeting adjourned at 10:45 a.m.

Respectfully submitted,

**Frank J. Karpinski**

Executive Director